



Fact Sheet

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2002 TAX CHANGES: INDIVIDUALS

The following changes are among the most significant affecting individual taxpayers in the 2003 filing season:

- **Eased Burden for Interest and Dividend Income** – The threshold for filing Schedule B of Form 1040 and Schedule 1 of Form 1040A has been raised to \$1,500. Now only taxpayers with taxable interest or ordinary dividends of more than \$1,500 will have to file these schedules. As a result of this change, the IRS estimates that 15 million fewer taxpayers will need to file these schedules. The previous threshold, in place since 1974, was \$400.
- **New 10-Percent Tax Rate** – The new 10-percent tax rate is reflected in the 2002 Tax Table and Tax Rate Schedules. This new rate applies to the first \$6,000 of taxable income (\$10,000 for a head of household; \$12,000 for married filing jointly or qualifying widow(er)).
- **Tax Rates Reduced** – Tax rates above 15 percent are lower by another one-half a percentage point, reflecting the continuing reduction of rates under the Economic Growth and Tax Relief Reconciliation Act of 2001. Thus, these rates are 27%, 30%, 35% and 38.6% for 2002.
- **Adoption Credit** – The value of this credit, available for qualified adoption expenses, is doubled to \$10,000 for 2002. In addition, more taxpayers will be eligible for this credit as the modified adjusted gross income (AGI) limit was also increased. Now a taxpayer can have a modified AGI of up to \$150,000 without having a reduction in the adoption tax credit. Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, travel expenses and other expenses directly related to the adoption of an eligible child.
- **Clean-Fuel Vehicle Deduction** – A deduction of up to \$2,000 is now available for certain hybrid gas-electric motor powered vehicles that have been certified by the IRS as meeting the provisions of the clean-fuel vehicle deduction section of

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the tax code. Prior to 2002, taxpayers who purchased such hybrid-motor vehicles were uncertain about the amount of the deduction and whether they qualified. Those who purchased such hybrid cars in past years may be eligible to claim the deduction in a prior year by filing an amended return.

- **Standard Mileage Rates** – Taxpayers may deduct 36.5 cents a mile for all business miles driven during 2002. Taxpayers may deduct travel related to qualified medical and moving expenses at a rate of 13 cents a mile.
- **Student Loan Interest Deduction** – The interest paid in 2002 on qualified student loans may now be deducted regardless of the age of the loan. Prior to 2002, only payments made in the first 60 months qualified. The modified adjusted gross income limit for this deduction is also increased. See related Fact Sheet, FS-2003-3, for more details.
- **Higher Contribution Limits for Roth and Traditional IRAs** – For 2002, taxpayers may contribute up to \$3,000 (\$3,500 if age 50 or older at the end of 2002) to either traditional or Roth IRAs. This figure is an increase from a \$2,000 limit in the prior year. Contributions for 2002 can be made until the due date for filing your return for that year *not* including extensions. For most taxpayers, this means that contributions must be made by April 15, 2003. For more details on this and other changes affecting retirement plans, see related Fact Sheet, FS-2003-4.

INFLATION ADJUSTMENTS FOR 2002

The filing requirements, personal exemption, standard deduction and maximum Earned Income Tax Credit amounts are adjusted each year for inflation.

- The 2002 gross income **filing requirements** are:

Single	\$ 7,700
Head of household	\$ 9,900
Married filing jointly	\$ 13,850
Married filing separately	\$ 3,000
Qualifying widow(er)	\$ 10,850

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations that require the filing of a return, such as when the net earnings from self-employment are \$400 or more.

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- The **personal exemption** amount for 2002 is \$3,000 -- \$100 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	\$ 137,300
Head of household	\$ 171,650
Married filing jointly or Qualifying widow(er) . . .	\$ 206,000
Married filing separately	\$ 103,000

These taxpayers use a worksheet in the tax package to figure their deduction for exemptions.

- The **standard deduction** amounts for 2002 are:

Single	\$ 4,700
Head of household	\$ 6,900
Married filing jointly or Qualifying widow(er) . . .	\$ 7,850
Married filing separately	\$ 3,925

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

- The **Earned Income Tax Credit** amounts for 2002 are:

<u>Qualifying child</u>	<u>Income Limit*</u>	<u>Max. Credit</u>	<u>Income for Max. Credit</u>
One	\$ 29,201	\$ 2,506	\$ 7,350 - 13,550*
Two or more . .	\$ 33,178	\$ 4,140	\$10,350 - 13,550*
None	\$ 11,060	\$ 376	\$ 4,900 - 6,150*

* -All EITC phaseout points are \$1,000 higher for married taxpayers filing joint returns.

The maximum amount of investment income a person may have and still be eligible for this credit increased to \$2,550.

TAX PACKAGES

The Internal Revenue Service will send taxpayers more than 38 million tax packages and nearly 25 million computer-filing brochures this year. This mailout costs \$8.2 million for printing and nearly \$12.2 million for postage, for an average cost of 32 cents per item mailed. Most people will get their tax packages in early January. The IRS expects to receive more than 132 million tax returns in 2003, with e-filing reaching nearly 54 million returns.

The IRS does not mail tax packages to those likely to use a computer to do their own returns. Instead, it sends them a brochure that explains electronic filing and the Self-Select PIN (personal identification number) program.

In addition, more than 16 million of the tax packages invite recipients to file by telephone. These TeleFile packages -- which contain no tax forms -- include Customer Service Numbers, used to "sign" the returns, and a "Tax Record" that helps the

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taxpayer prepare for the call and serves as a record of filing.

More than 1.8 million taxpayers will receive a Form 1040-V payment voucher in a separate mailing from their regular tax packages. The voucher helps ensure that their payments are accurately credited to their accounts. Previously, the IRS sent special tax packages that included the vouchers, but found it could cut costs by mailing the voucher separately and sending taxpayers the regular tax packages.

Although the name labels on the tax packages do not contain Social Security Numbers (SSNs), taxpayers should use the labels on their forms to help ensure a correct mailing address. They must put their SSNs on the tax forms, taking care that each person's SSN matches the name on the Social Security card. Failure to do so may result in delayed refunds or lost tax benefits. Incorrect or missing numbers for taxpayers or dependents were the most frequent errors on returns the last few years.

Forms and publications are available from the IRS Web site at www.irs.gov, or by calling 1-800-TAX-FORM (1-800-829-3676). The IRS TaxFax offers forms and instructions by return fax -- call 703-368-9694 from a fax machine.

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